

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**AUDIT OF THE
DISTRICT OF COLUMBIA
HOUSING AUTHORITY'S
FINANCIAL MANAGEMENT OF
HOPE VI GRANT FUNDS**



**CHARLES C. MADDOX, ESQ.
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



September 9, 2003

Michael Kelly
Executive Director
District of Columbia Housing Authority
1133 North Capitol Street, N.E., Suite 200
Washington, D.C. 20002

Dear Mr. Kelly:

Enclosed is the final report summarizing the results of the Office of the Inspector General's (OIG) Audit of the District of Columbia Housing Authority's Financial Management of HOPE VI Grant Funds (OIG No. 01-2-25PH (c)). This is the third in a series of three reports. The first report, OIG No. 01-2-25PH(a), addressed implementing sound management practices relative to monitoring HOPE VI projects and ensuring that contractors adhere to contract provisions. The second report, OIG No. 01-2-25PH(b), addressed the need to establish procedures requiring ethics training for all DCHA executives and senior managers, the need to fully comply with procurement regulations, and the need to improve record keeping for HOPE VI projects.

We directed five recommendations to the District of Columbia Housing Authority (DCHA) for necessary action to correct the described deficiencies. Specifically, our audit disclosed that DCHA did not fully comply with applicable program rules and regulations as it relates to Financial Management of HOPE VI Grant Funds. In a response to the draft of this report, DCHA strongly disagreed with the report as presented. Accordingly, we re-examined our facts and conclusions and determined that the report is fairly presented.

We request that DCHA reconsider its position on Recommendations 1, 2, and 3 and provide additional responses to us by September 24, 2003. Additionally, we request DCHA provide us target completion dates for planned corrective actions on Recommendations 4 and 5 and provide our Office copies of the revised policies and procedures once completed. Our comments to DCHA's response to the draft report are included at Exhibit D. The complete text of DCHA's response is included at Exhibit E. Inspector General recommendations should generally be resolved within 6 months of the date of the final report. Therefore, we will continue to work with DCHA to reach final agreement on the unresolved recommendations.

If you have questions, please contact William J. DiVello, Assistant Inspector General for Audits, or me at (202) 727-2540.

Sincerely,

A handwritten signature in cursive script, appearing to read "Charles C. Maddox".

Charles C. Maddox, Esq.
Inspector General

CCM/ws

Enclosure

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AUDIT OF THE DISTRICT OF COLUMBIA HOUSING AUTHORITY'S FINANCIAL MANAGEMENT OF HOPE VI GRANT FUNDS

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FINANCIAL MANAGEMENT OF
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EXECUTIVE DIGEST

OVERVIEW

The District of Columbia Office of the Inspector General (OIG) has completed an audit (OIG No. 01-2-25PH(c)) entitled “Audit of the District of Columbia Housing Authority’s Financial Management of HOPE VI Grant Funds.” This is the third and final audit within a series of reports to address various functions associated with DCHA’s management of redevelopment projects funded with HOPE VI grant funds. This final audit addresses the need for DCHA to properly account for HOPE VI and other grant and private funding, and to properly document Wheeler Creek HOPE VI revitalization project expenditures. The first audit (OIG No. 01-2-25PH(a)) entitled “Audit of the District of Columbia Housing Authority’s Monitoring of HOPE VI Projects,” which was issued on February 14, 2003, addressed implementing sound management practices relative to monitoring HOPE VI projects and ensuring that contractors adhere to contract provisions. The second audit (OIG No. 01-2-25PH(b)) entitled “Audit of the District of Columbia Housing Authority’s Contract Management and Record Keeping for HOPE VI Projects,” issued April 21, 2003, addressed the need to establish procedures requiring ethics training for all DCHA executives and senior managers, the need to fully comply with procurement regulations, and the need to improve record keeping for HOPE VI projects. The audits included a review of selected transactions for 7 HOPE VI grant awards to DCHA from the U.S. Department of Housing and Urban Development (HUD). The HOPE VI grant awards reviewed totaled \$110 million dating back to 1994. The awards were to be used to finance four revitalization and three demolition projects at severely distressed public housing communities in the District of Columbia.

In a response to the draft of this third report, DCHA strongly disagreed with the report as presented. Accordingly, we re-examined our facts and conclusions and determined that the report is fairly presented. Additionally, we adjusted our figures concerning the unsupported cost for a HOPE VI project (Wheeler Creek) that DCHA could not support at the time of our audit fieldwork. DCHA provided additional documentation and added explanations after our fieldwork was completed. As a result, the unsupported cost figures were adjusted down from \$27.8 million to \$14.6 million. This documentation was not offered by DCHA to the audit staff during the fieldwork stage of the audit. It is of particular concern that after meetings with DCHA officials (during the course of the audit) regarding inadequate documentation to support disbursements to contractors/developers, a DCHA official told the auditors to go to the developer’s office to review invoices. This DCHA official went on to inform audit staff that it was a cumbersome task for DCHA to maintain every supporting document for payment. This practice is not in accordance with governing regulations, sound internal control mechanisms, or prudent business practices for the accounting of public funds.

CONCLUSIONS

An analysis of DCHA’s monthly bank statements for the HOPE VI program revealed that DCHA did not maintain HOPE VI grant funds in a separate bank account as required by the

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grant agreements. Instead, HOPE VI funds were deposited and commingled with other types of funds into one bank account. The commingled funds were then re-deposited into and disbursed from another bank account. Further, DCHA did not establish a system of recordkeeping that would separately account for HOPE VI Program expenditures; therefore, DCHA could not provide us a monthly summary or schedule to show the amount of funds disbursed for HOPE VI Program activities. As a result, those responsible for oversight of the HOPE VI grant funds cannot be assured that grant funds were used for HOPE VI activities or disbursed for valid, reimbursable program costs.

Additionally, DCHA did not maintain sufficient documentation to support 45 percent of the payments made to contractors/developers for the Wheeler Creek HOPE VI Revitalization Project. Specifically, our review disclosed that DCHA disbursed \$13.2 million for unsupported expenditures and \$1.4 million for questionable expenditures for related project costs. As a result, the OIG is questioning \$14.6 of the \$32.2 million reviewed for the disbursements made for those expenditures, which were paid with HOPE VI grant funds (\$18.7) and other funds (\$13.5) maintained by DCHA.

These conditions occurred because DCHA did not fully comply with all of the provisions of the HOPE VI grant agreements and the federal regulations for the maintenance and accounting of funds and project expenditures. In general, DCHA senior financial officials did not ensure that established criteria for tracking costs and for the proper maintenance of HOPE VI Program records were followed. While DCHA has demonstrated success in developing attractive and affordable housing as part of the HOPE VI project, the lack of sound internal control mechanism at Wheeler Creek calls into question whether more success could have been realized if funds were better managed and accounted for.

SUMMARY OF RECOMMENDATIONS

We directed five recommendations to the Director, District of Columbia Housing Authority. The recommendations focus on:

- maintaining a separate bank account for the maintenance of HOPE VI grant funds;
- developing and implementing an accounting system to separately track costs for HOPE VI Program activities;
- obtaining documentation to support disbursements made for the Wheeler Creek HOPE VI Revitalization Project in accordance with requirements set forth by the grant agreement and federal law;
- developing and implementing policies and procedures to ensure that developers provide DCHA supporting documentation for expenditures prior to making payment of HOPE VI grant funds; and

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- developing and implementing policies and procedures to ensure that records are maintained to identify the type of funds disbursed for projects (i.e., HOPE VI funds, private funds, other federal funds, etc.).

MANAGEMENT RESPONSE AND OIG COMMENTS

DCHA officials did not agree with the report's conclusions and did not concur with Recommendations 1, 2, and 3. DCHA provided actions on Recommendations 4 and 5, which meet the intent of the recommendations as long as the updated policies and procedures are consistent with Title 24 CFR § 85.20 requirements and requirements of HOPE VI grant agreements. We request that DCHA reconsider its position on Recommendations 1, 2, and 3 and provide completion dates and copies of updated policies for Recommendations 4 and 5. Mayor's Order 2000-105, July 10, 2000, requires heads of all District agencies, including independent agencies, to respond to audit recommendations. Generally, audit recommendations should be resolved within 6 months of the date of the final report. Accordingly, we will continue to work with DCHA to reach final agreement on the unresolved recommendations. Exhibit D includes OIG comments to DCHA's response to the draft report. The complete text of the DCHA Executive Director's response to the draft report is included at Exhibit E.

A summary of the potential benefits resulting from the audit is shown at Exhibit A.